Scott's
Restaurants Co. Limited

Annual Report 1978

Scott's

Directors and Officers

Directors

George R. Gardiner

F. Ronald Graham

William J. Bushnell

Robert A. Stevens

John J. Leon

John E. Coles

Mrs. Helen D. Phelan

Michael Gardiner

George S. MacDonell

Richard A. Hunter

William C. Graham, Q.C.

Leslie W. Paszat

Officers

George R. Gardiner
Chairman of the Board

F. Ronald Graham
Vice-Chairman of the Board

John J. Leon
President

Richard A. Hunter
Senior Vice President
Canadian Operations

Leslie W. Paszat
Senior Vice President
U.S. Operations

Peter J.M. Burger
Vice President; General Manager
Take-Out Operations — Ontario

Melville W. Fanshaw
Vice President; Planning
and Development

Guy Jeanneau
Vice President; General Manager
Take-Out Operations — Quebec

Thomas W. Chase
Vice President

L. Murray Duff
Vice President; General Manager
Food Service Operations

James G. Gibson, C.A.
Vice President; Finance and Treasurer

Edmund V. Graham, C.A.
Secretary

Sidney Robbins
Assistant Secretary

Head Office
2000 Jane St., Weston, Ont.

Head Office — Quebec
202 Taschereau Boulevard
Montreal, Quebec

Head Office — Florida
4111 LeJeune Road
Coral Gables, Florida

Solicitors
McCarthy & McCarthy

Registrars and Transfer Agents
Montreal Trust Company

Bankers
The Royal Bank of Canada

Auditors
Campbell, Lawless & Punchard

Listed
Toronto Stock Exchange
Montreal Stock Exchange

Une copie de ce rapport en anglais peut être obtenue en écrivant au Secrétaire de la Compagnie.

The Annual General Meeting of Shareholders will be held at the Holiday Inn, 89 Chestnut Street, Toronto, on Tuesday, April 24, 1979 at 4 p.m.

Scott's
Restaurants Co. Limited

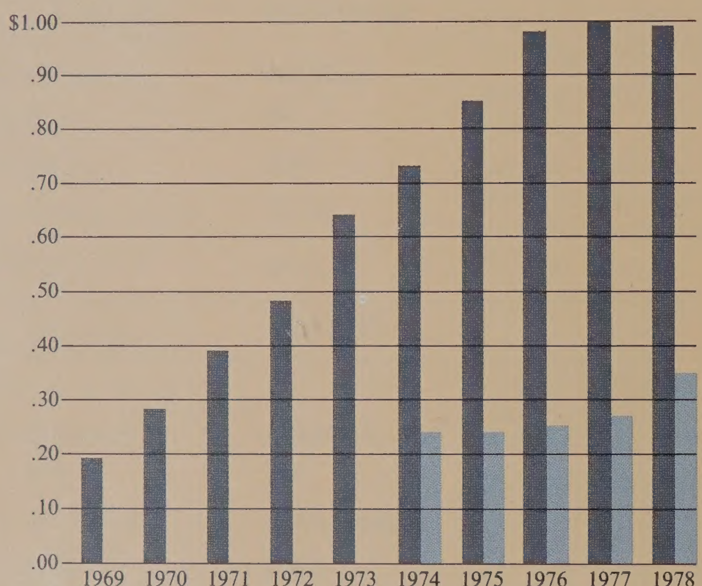
Highlights

	Year Ended December 31, 1978	Year Ended January 1, 1978
Sales	**$111,401,484**	$100,905,834
Net income for the year	**8,327,593**	8,426,337
— Per Share	**.99**	1.00
— As a percentage of sales	**7.5%**	8.4%
— As a percentage of shareholders' equity (1)	**19.3%**	22.8%
Dividends paid to shareholders	**2,498**	2,239
Capital expenditures	**18,900,883**	8,709,488
Shares outstanding		
— Class A and Class B	**8,530,896**	8,386,520
— Number of Shareholders, 99% Canadian (1977 99%)	**926**	873
— Salaries, wages and employee benefits	**$22,416,154**	$20,512,702
— Number of employees (average)	**3,600**	3,380
Locations in operation	**294**	257

(1) Shareholders' equity at beginning of year

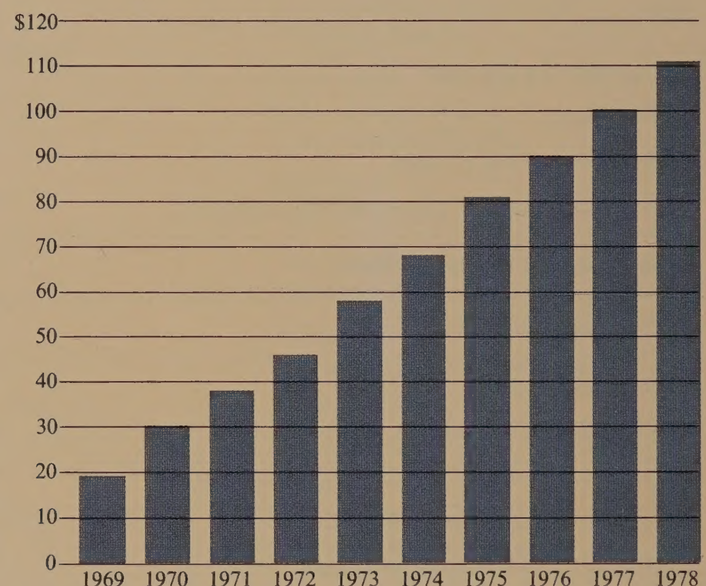
Net Income and Dividends

■ Net Income per Share ■ Dividends



Sales

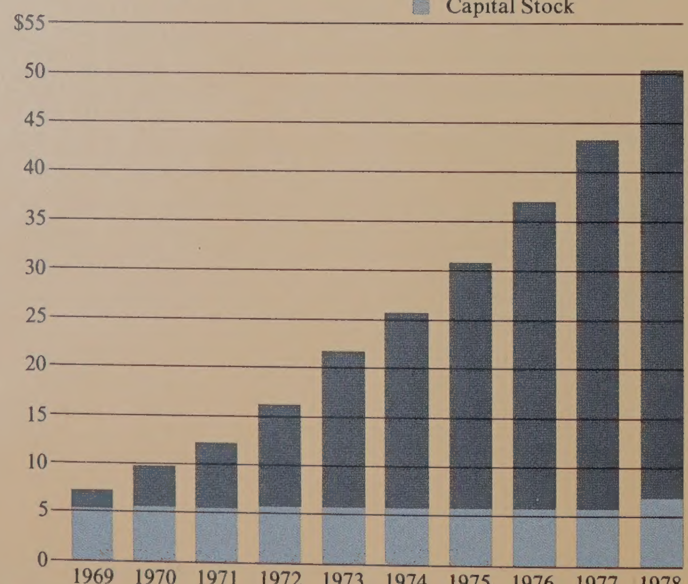
(in millions of dollars)



Shareholders' Equity

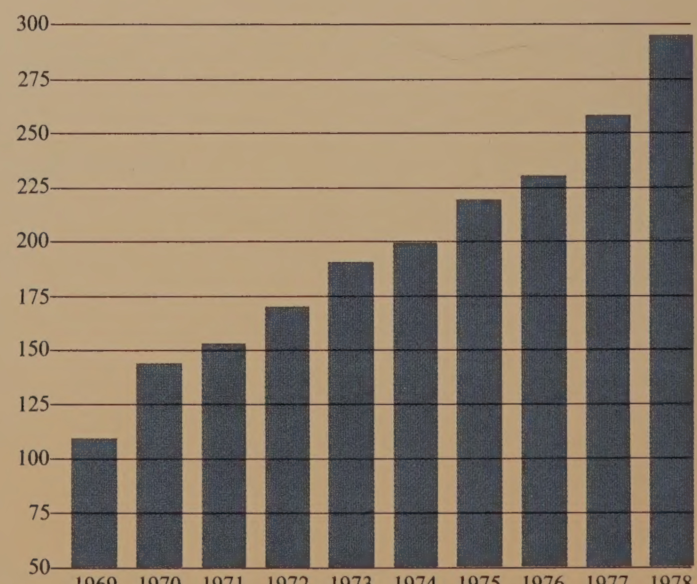
(in millions of dollars)

■ Retained Earnings
■ Capital Stock



Number of locations in Operation

(at year end)



To our Shareholders

I am pleased to report that in 1978 your Company continued its growth pattern with sales showing yet another marked increase and a record number of new outlets being opened. Start-up costs associated with these new locations had an effect on earnings which were down slightly from the record level of the year before.

Some of the significant results of 1978 operations were:

– Sales increased 11% to $111,401,484 from $100,905,834 in 1977.

– Net income was off by 1% to $8,327,593 (99 cents per share) compared to $8,426,337 ($1.00 per share) in 1977.

– New outlets opened numbered 40, bringing the total of all locations in operation at year-end to 294; 255 in Canada and 39 Scott's® FRIED CHICKEN take-outs in Florida.

Financial Results

The regions primarily responsible for the sales increase were Ontario where sales were up approximately $6,000,000 or 10% and Florida where the increase amounted to $4,000,000. Sales in the Province of Quebec were basically unchanged from the 1977 level.

The decline in income was due mainly to two factors. Earnings from Quebec operations showed no improvement over 1977. The cost of development in the Florida market resulted in a loss for this division of more than $1,000,000 before taxes. Both were offset substantially by operating results in Ontario which produced a satisfactory earnings increase 10% ahead of 1977 results.

Market Conditions

Your Company felt the effects of the generally difficult business conditions in Canada during the year. The economy remained soft and continuing cost increases in all areas posed a challenge, particularly since the higher prices we have had to institute have met with some consumer resistance.

One significant cost is of course the purchase of chicken, which traditionally has become lower in the fall and early winter months. In the most recent period, however, this cost actually increased, placing further pressure on profit margins.

As mentioned in my report to shareholders for 1977, we planned to be more selective in 1978 in our store opening program for Ontario and Quebec and to concentrate mainly on development of the Florida market. As a result we limited new locations in Canada in the past year to nine, made up of

- 4 take out operations in Ontario,
- 1 Family Place outlet in London, Ontario and
- 4 take out operations in the Province of Quebec.

Capital Expenditures

Capital expenditures in 1978 amounted to $18,900,883, an increase of 117% over 1977. Of this sum, $11,774,000 was expended in Florida. Expenditures planned for 1979 are estimated at $10,250,000, with $4,500,000 allocated to the Florida Division of the Company.

Florida Expansion

Scott's® FRIED CHICKEN in Florida moved ahead at a very fast rate in 1978 and we were able to open 32 stores. This was a sizeable task to undertake in one year. It naturally generated substantial pre-opening costs as well as development costs to build the management and staff organization necessary to accomplish this goal.

We are pleased with the progress of this program through the year and are planning to continue our expansion in the existing market areas of Dade County, Broward, Palm Beach, Orlando, Tampa and St. Petersburg, with the goal of having 60 stores serving these markets by the end of 1979.

We feel this number will provide enough coverage in these areas to enable us to implement the complete marketing program of advertising and promotion necessary to create complete consumer awareness and acceptance of our service in Florida.

Outlook

A few comments on the general outlook for the Company seem pertinent at this time. Your management feels, after some extensive market research, that a more diversified approach is needed to increase sales volumes over the next decade. We are at the present time testing new and remodelled locations with drive-through facilities, upgraded building structures, seating, additional menu items and other new features.

We believe these tests will show that certain changes are needed in our approach both to protect our present market share and also to ensure continued growth. As the results of this research becomes available, we expect to undertake a general upgrading and updating of all operations to meet the needs of our customers in the coming years.

It is also my pleasure to report that as of March 9, 1979 your Company had acquired 61% of the issued outstanding common shares of Commonwealth Holiday Inns of Canada Limited, whereas on a fully diluted basis this represents 53.9% of the common shares of Commonwealth Holiday Inns of Canada Limited. On March 15, 1979 we made a cash offer to all remaining shareholders, (other than those resident in the United States), to purchase all remaining outstanding shares of Commonwealth Holiday Inns of Canada Limited at a price of $10.00 per common share and an equivalent price for the outstanding convertible preferred shares.

Your management is very excited about the opportunities this acquisition presents. It provides Scott's with the major diversification it has been seeking for the past two years. We believe both companies have much in common in management style and that Scott's will benefit substantially in future years from this move.

Personnel

The progress of your Company is achieved with the continuing efforts of many people. I wish to express the appreciation of your Directors and management for the loyalty and support of all shareholders, employees and suppliers.

J.J. Leon

J.J. Leon, President
March 16, 1979

Ontario Operations

In Ontario Scott's operates a chain of 133 take-out stores. Within the past year four new take-out operations have been added and one uneconomic store closed. We will continue to seek new outlets in areas where we are not presently represented.

High priority is being given to increasing profitability at existing stores. Several programs were initiated in 1978 to support this objective. These included

- experimentation with menu additions
- experimentation with drive-thru windows, and
- expansion of employee training activities.

In 1979 the addition of seating will be evaluated at test locations and image upgrading will be initiated.

In Ontario Scott's Food Service Division operates in-plant and vending facilities, Scott's Dining Lounges (formerly Family Place) and The Texaco Highway 401 food service operations. No significant expansion is anticipated in either the in-plant or Highway 401 operations. Employees in all operations in the province number 2,037.

In September 1978 a prototype Scott's Dining Lounge was opened at London, Ontario. Results to date have been encouraging and we shall continue to monitor results before deciding to expand the concept.

Net store profits in Ontario showed a satisfactory increase in 1978. While the major portion of this increase was derived from the take-out operations, the Scott's Restaurant Division and the in-plant operations also contributed to the profit improvement.

Quebec Operations

Scott's operates a chain of 99 take-out stores in the Province of Quebec of which four are new locations added in 1978. Two of these were in the Montreal metropolitan area which accounts for about 50 per cent of all locations in Quebec.

As in Ontario, seating is being tested at one of the new locations as well as at others which have been remodelled. The largest to be remodelled during the year is at St. Jerome, near the Montreal end of the Autoroute leading north to the Laurentian Mountain resort and recreation area. Forty seats were added at this location. The use and value of this seating is being monitored closely and may lead to additional installations.

The registered counterpart to Scott's Chicken Villa in the Province of Quebec is La Ville du Poulet. This sign and the trademark Poulet Frit à la Kentucky are household words in Quebec and are recognized under the recent legislation governing the use of the French language in the province. Menus are printed in both English and French.

We are pleased that our management and operating staff of 1100 were recruited and trained in Quebec.

Though sales in Quebec in 1978 remained close to 1977 levels, the Company continues to examine the market closely for new locations.

Scott's® Fried Chicken — USA

The past year was one of significant achievement. In a very competitive fast food environment, and in direct competition with five major national and/or regional fried chicken restaurant chains, Scott's® met its objectives in starting and developing a major long-term growth opportunity in the United States.

Of note are the following:

- a total of 39 stores in operation in Florida — 32 were opened in 1978
- growth in store sales has been gratifying
- unique Scott's® image, building, and operational systems have been developed and established. Dining rooms and drive-thrus are being extensively tested.
- Scott's® FRIED CHICKEN is a unique formula and taste, neither crispy nor spicy, but designed to specifically appeal to the average American consumer.
- Scott's® marketing strategy is highlighted by "SCOTTY"®, the "talking chicken", using the voice of Hal "Great Gildersleeve" Peary.

We are pleased to report we have already built a team consisting of 133 salaried and 330 hourly employees dedicated to the growth and success of Scott's® FRIED CHICKEN. Only twelve were employees of Scott's Canada, and the remainder of these valued and capable people were hired and trained locally. In addition, a reliable group of suppliers providing goods and services has been established to support our operations and facilitate our expansion.

The only judgement and opinion of significance is that of the American consumer. We are pleased to report the progressive increases in store sales, and market research have told us that American consumers like and welcome the taste of Scott's® FRIED CHICKEN and its quality.

The opportunity is both real and major, and Scott's® will continue to strive to meet the challenge in 1979.

Scott's

Restaurants Co. Limited

Consolidated Income

Fiscal year ended December 31, 1978

	1978 (52 weeks)	1977 (53 weeks)
Sales	$111,401,484	$100,905,834
Cost of goods sold, operating and administrative expenses	97,949,571	87,206,842
Income from operations	13,451,913	13,698,992
Interest income	425,680	627,345
Income before income taxes	13,877,593	14,326,337
Income taxes	5,550,000	5,900,000
Net income for the year	$ 8,327,593	$ 8,426,337
Net income per share	$0.99	$1.00

Consolidated Retained Earnings

Fiscal year ended December 31, 1978

	1978 (52 weeks)	1977 (53 weeks)
Balance, beginning of year	$ 37,439,376	$ 31,252,043
Net income for the year	8,327,593	8,426,337
	45,766,969	39,678,380
Deduct dividends paid	2,498,066	2,239,004
Balance, end of year	$ 43,268,903	$ 37,439,376

(see accompanying notes)

Scott's

Restaurants Co. Limited

Consolidated Balance Sheet

December 31, 1978

ASSETS	December 31 1978	January 1 1978
Current		
— Cash and short term investments	$ 5,995,328	$ 8,360,843
— Accounts receivable	328,240	296,900
— Inventories, at cost	1,277,263	1,014,958
— Deposits and prepaid expenses	430,300	238,205
	8,031,131	9,910,906
Fixed, at cost		
— Land	16,480,213	10,960,354
— Buildings	31,001,345	21,668,921
— Equipment and motor vehicles	17,676,911	13,459,116
— Leasehold improvements	2,921,165	2,728,816
	68,079,634	48,817,207
— Less accumulated depreciation and amortization	14,250,315	10,840,291
	53,829,319	37,976,916
Other		
— Franchises, at cost less amortization	3,152,717	3,359,164
— Deferred development and pre-opening expenses	1,007,002	153,470
	4,159,719	3,512,634
	$66,020,169	$51,400,456

Approved on behalf of the Board
George R. Gardiner, Director
John J. Leon, Director

(see accompanying notes)

Scott's
Restaurants Co. Limited

Consolidated Balance Sheet

December 31, 1978

LIABILITIES	December 31 1978	January 1 1978
Current		
— Accounts payable and accrued expenses	**$10,410,488**	$ 5,836,621
— Income taxes payable	**2,778,024**	145,151
	13,188,512	5,981,772
Deferred income taxes	**2,604,202**	2,237,202
SHAREHOLDERS' EQUITY		
Share Capital (note 3)		
— Authorized — 1,000 common shares 19,999,000 class A and class B shares		
— Issued — 8,530,896 class A and class B shares (8,386,520 January 1, 1978)	**6,958,552**	5,742,106
Retained earnings	**43,268,903**	37,439,376
	50,227,455	43,181,482
	$66,020,169	$51,400,456

Auditors Report

To the Shareholders of Scott's Restaurants Co. Limited

We have examined the consolidated balance sheet of Scott's Restaurants Co. Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 26, 1979

Campbell, Lawless & Punchard
Chartered Accountants

Scott's
Restaurants Co. Limited

Consolidated Statement of Changes in Financial Position

Fiscal year ended December 31, 1978

	1978 (52 weeks)	1977 (53 weeks)
SOURCE OF FUNDS		
— From operations		
Net income	**$ 8,327,593**	$ 8,426,337
Add expenses included therein not requiring a current outlay of funds		
Depreciation of fixed assets	**3,048,480**	2,448,865
Amortization of franchises	**206,447**	196,045
Amortization of development and pre-opening expenses	**265,265**	38,217
Deferred income taxes	**367,000**	23,000
Funds received from operations	**12,214,785**	11,132,464
Issue of shares (note 3)	**1,216,446**	—
Decrease in investments	**—**	162,583
Total funds received	**13,431,231**	11,295,047
APPLICATION OF FUNDS		
— Purchase of fixed assets	**18,900,883**	8,709,488
— Payment of dividends	**2,498,066**	2,239,004
— Development and pre-opening expenses	**1,118,797**	191,687
Total funds expended	**22,517,746**	11,140,179
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (9,086,515)**	$ 154,868

(see accompanying notes)

Scott's Restaurants Co. Limited

Notes to the Consolidated Financial Statements

December 31, 1978

1. Incorporation

Scott's Restaurants Co. Limited is incorporated under the laws of Ontario. Its principal subsidiary, Scott's Restaurants (Quebec) Limited, is incorporated under the laws of Quebec.

2. Significant Accounting Policies

a) Principles of consolidation

The consolidated financial statements include the accounts of Scott's Restaurants Co. Limited and its subsidiaries, all of which are wholly-owned.

b) Amortization and depreciation

The cost of franchises is being amortized over the term of the franchise agreement with Colonel Sanders Kentucky Fried Chicken Ltd., which agreement terminates in 1994.

Depreciation and amortization of fixed assets is provided as follows: Buildings — 5% straight-line; Equipment — 10% straight-line; Motor Vehicles — 30% diminishing balance; Leasehold Improvements — over the unexpired terms of the leases.

c) Development and pre-opening expenses

Development and pre-opening expenses which are applicable only to United States operations are amortized on the straight-line method over five years.

d) Income Taxes

The Company follows the tax allocation basis of providing for income taxes. Accordingly the cumulative income tax effect of the timing differences between reported income and taxable income is reflected in the balance sheet as a deferred income tax liability.

e) Exchange translation

Current assets and current liabilities of the United States division have been translated into Canadian dollars at the rate of exchange prevailing at the fiscal year-end. Other assets have been translated at exchange rates prevailing on the dates the assets were acquired. Items of income and expense have been translated at the average rate of exchange for the year. The resulting exchange loss on conversion which amounted to approximately $125,000 has been included in net income.

f) Net income per share

Net income per class A and B shares is calculated on the weighted average number of shares outstanding during the year. The conversion of stock options outstanding at the year end is not considered to have a material dilutive effect on such earnings per share.

3. Share Capital

a) Amalgamation

A Certificate of Amalgamation was issued on April 24, 1978 to amalgamate the Company with a wholly-owned subsidiary. The issued and outstanding Class A shares and Class B shares of the Company were converted into an equivalent number of Class A and Class B shares of the amalgamated company. The authorized capital of the amalgamated company is 10,000,000 Class A shares, 9,999,000 Class B shares, and 1,000 common shares. Class A and Class B shares are voting, convertible into one another on a share for share basis, and rank equally with respect to dividends and in all other respects. The only distinction between the two classes of shares is that, up to December 31, 1978, dividends on Class B shares were paid out of tax-paid undistributed surplus on hand as defined in the Income Tax Act (Canada). At December 31, 1978 the issued share capital of the company, including 134,376 shares issued as partial consideration for the acquisition of Bowles Enterprises (1968) Limited and 10,000 shares purchased under the terms of the stock option plan, was as follows:

Class A shares	6,576,326
Class B shares	1,954,570
	8,530,896

b) Stock Option Plan

The Company has reserved 300,000 of its authorized but unissued class A shares for issue to officers and key employees under the terms of a stock option plan established in 1976. Options for 222,000 shares were outstanding at December 31, 1978. These options are exercisable in instalments to 1982 at prices ranging from $7.20 to $8.54 per share.

4. Remuneration of Directors and Officers

The aggregate direct remuneration paid or payable for the fiscal year by the Company and its subsidiaries to the directors as such was $8,500 and to the officers as such was $497,455.

5. Lease and Other Commitments

The Company's policy is to own rather than lease its properties. At December 31, 1978, the Company was committed to annual lease obligations of $714,000 for 1979 reducing to $341,000 in 1983.

6. Anti-inflation Legislation

The Company has determined that it has complied with the provisions of the anti-inflation legislation relating to employee compensation, prices, profits and dividends to December 31, 1978, the end of the program.

7. Contingent Liability

Scott's Restaurants Co. Limited, Les Restaurants Scott (Quebec) Limitee and Scott's Restaurants Inc., have been named, along with others in an action in the Supreme Court of Ontario in which the plaintiffs are KFC Corporation and KFC National Management Company. The plaintiffs allege against the defendants in various combinations, damages allegedly resulting from certain actions allegedly taken by the defendants in connection with the operations commenced by Scott's Restaurants Co. Limited in the United States, and certain injunctive relief. The damages claimed by the plaintiffs which are specified in the claim aggregate, on the face of the claim, $8,000,000. The plaintiffs also claim other damages in amounts which cannot presently be determined.

The Company denies any charges of wrong-doing and intends to vigorously oppose the claims. Management believes that the ultimate liability, if any, will not have a materially adverse effect on the financial position of the company. No provision has been made in the financial statements in respect of these claims.

8. Subsequent Event

The Company has acquired from certain principal shareholders of Commonwealth Holiday Inns of Canada, Limited, on February 13, 1979, an aggregate of 2,451,768 common shares in the capital of Commonwealth Holiday Inns of Canada, Limited, which represent approximately 45.9% of the issued and outstanding shares of that corporation, at a price of $10 per share.

In connection with such purchases the Company has convenanted that it will make, on or before April 6, 1979, an offer to all other holders of common shares resident in Canada to purchase their common shares for cash at a price of $10 per share.

In addition to the presently outstanding 5,339,231 common shares, a further 900,000 common shares could be issued on the conversion of preferred shares and warrants, of Commonwealth Holiday Inns of Canada Limited. If all the common shares as presently outstanding together with all the common shares which would become outstanding on the conversion of the preferred shares and warrants were acquired, the total cost would be approximately $62,000,000. The Company is financing these purchases through bank borrowings.

Ten Year Comparison

(dollars in thousands, except net income per share)

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Sales	**$111,402**	$100,905	$90,058	$80,978	$68,132	$57,786	$46,105	$38,179	$30,023	$18,811
Income before depreciation and amortization	**$ 16,709**	$ 16,344	$15,715	$13,788	$11,953	$10,494	$ 8,807	$ 7,420	$ 5,431	$ 3,160
Provision for depreciation and amortization	**3,255**	2,645	2,273	1,900	1,554	1,324	1,050	846	617	393
	13,454	13,699	13,442	11,888	10,399	9,170	7,757	6,574	4,814	2,767
Income from investments	**424**	627	651	473	469	169	78	36	83	82
Income before income taxes	**13,878**	14,326	14,093	12,361	10,868	9,339	7,835	6,610	4,897	2,849
Income taxes	**5,550**	5,900	5,849	5,230	4,770	3,950	3,800	3,381	2,607	1,512
Net Income	**8,328**	8,426	8,244	7,131	6,098	5,389	4,035	3,229	2,290	1,337
Net income per share (1)	**$ .99**	$ 1.00	$ .98	$ .85	$ .73	$ .64	$ .48	$ .39	$ .28	$ .19
As a percentage of sales	**7.5%**	8.4%	9.2%	8.8%	9.0%	9.3%	8.8%	8.5%	7.6%	7.1%
As a percentage of shareholders' equity (2)	**19.3%**	22.8%	26.7%	27.7%	28.2%	33.3%	33.2%	33.0%	31.4%	22.4%
Dividends paid	**$ 2,498**	$ 2,239	$ 2,088	$ 2,013	$ 2,013	—	—	—	—	—
Per Share	**.30**	.27	.25	.24	.24	—	—	—	—	—
Retained Earnings for year	**$ 5,830**	$ 6,187	$ 6,156	$ 5,118	$ 4,085	$ 5,389	$ 4,035	$ 3,229	$ 2,290	$ 1,337
Other financial data										
Capital Expenditures	**18,901**	8,709	6,735	7,251	6,222	4,280	5,402	3,421	5,325	5,570
Fixed Assets and Franchises (net)	**56,982**	41,336	35,272	30,809	25,459	20,790	17,865	13,561	10,985	6,463
Shareholders' Equity	**50,227**	43,181	36,994	30,838	25,719	21,627	16,175	12,163	9,798	7,295
Shareholders' equity per share	**$ 5.97**	$ 5.15	$ 4.41	$ 3.68	$ 3.07	$ 2.58	$ 1.93	$ 1.46	$ 1.18	$ 1.05
Number of Employees	**3,600**	3,380	2,990	2,770	2,510	2,450	2,140	1,950	1,875	1,525
Locations in Operation	**294**	257	229	218	199	190	169	153	143	108

(1) After adjusting for the two for one split in 1973.

(2) Shareholders' equity at beginning of year

SCOTT'S RESTAURANTS CO. LIMITED

And Subsidiary Companies

CONSOLIDATED BALANCE SHEET

	July 16, 1978 (unaudited)	*Jan. 1, 1978 (audited)*
Assets		
Current		
Short Term Investments and Cash	$ 5,688,518	$ 8,360,843
Accounts Receivable, Inventories and Miscellaneous	1,450,295	1,510,066
	7,138,813	9,870,909
Franchises at cost — less amortization	3,248,101	3,359,164
Investments at cost	36,909	39,997
Deferred Charges	497,386	153,470
Fixed Assets at cost—less Depreciation	43,793,761	37,976,916
	$54,714,970	$51,400,456
Liabilities		
Current		
Accounts payable and accrued expenses	$ 5,230,604	$ 5,836,621
Income Tax Payable	1,267,467	145,151
	6,498,071	5,981,772
Deferred Income Tax	2,237,202	2,237,202
	8,735,273	8,218,974
Shareholders Equity		
Share Capital (8,396,520 shares at July 16, 1978)	5,816,356	5,742,106
Retained Earnings	40,163,341	37,439,376
	$45,979,697	$43,181,482
	$54,714,970	$51,400,456

Scott's Restaurants Co. Limited

Interim Report to Shareholders

28 WEEKS ENDED JULY 16, 1978

SCOTT'S RESTAURANTS CO. LIMITED

And Subsidiary Companies

(unaudited interim report)

Dear Shareholder:

Sales and net earnings of our company for the 28 weeks ended July 16, 1978 continued to increase over the same period in 1977.

Net earnings were $3,878,586 or 46.2¢ a share compared to $3,768,055 or 44.9¢ a share during the same period in 1977.

Total sales increased to $57,807,412 in year to date 1978 compared to $52,298,830 in 1977.

Our new store openings in Florida continue to proceed according to plan with a total of 25 stores now in operation. In addition, a further 6 new stores have been added to our Canadian operations so far this year.

J. J. Leon
President

August 28, 1978

CONSOLIDATED STATEMENT OF EARNINGS

	For the 28 weeks ended	
	July 16, 1978 (unaudited)	*Jan. 1, 1978 (audited)*
Sales	$57,807,412	$52,298,830
Earnings before depreciation and amortization	8,194,841	7,510,704
Provision for depreciation and amortization of franchises	1,705,706	1,358,599
	6,489,135	6,152,105
Income from investments	198,082	344,542
Earnings before income tax	6,687,217	6,496,647
Estimated income taxes	2,808,631	2,728,592
Net earnings	$ 3,878,586	$ 3,768,055
Earnings per share	46.2¢	44.9¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS		
Net earnings for the period	$ 3,878,586	$ 3,768,055
Add expenses not requiring cash expenditure including depreciation, amortizations and deferred income tax	1,705,706	1,445,599
Funds provided by operations	5,584,292	5,213,654
Proceeds from shares issued under Employees Option Plan	74,250	—
Other	3,109	6,284
	$ 5,661,651	$ 5,219,938
APPLICATION OF FUNDS		
Additions to Fixed Assets and Franchises	7,411,487	2,638,060
Dividend Paid	1,154,643	1,090,051
Deferred Charges	343,916	—
	8,910,046	3,728,111
INCREASE (DECREASE) IN WORKING CAPITAL	(3,248,395)	1,491,827
Working Capital beginning of period	3,889,137	3,734,269
Working Capital end of period	$ 640,742	$ 5,226,096